
Financial Plan

While the District of Columbia has successfully weathered the economic and financial storms of FY 2002, we must brace for turbulent times in FY 2003 and judiciously plan for FY 2004. The District's elected and appointed leaders remain firm in their commitment to a balanced budget in FY 2004 and in subsequent years, while continuing to deliver fundamental services to the stakeholders.

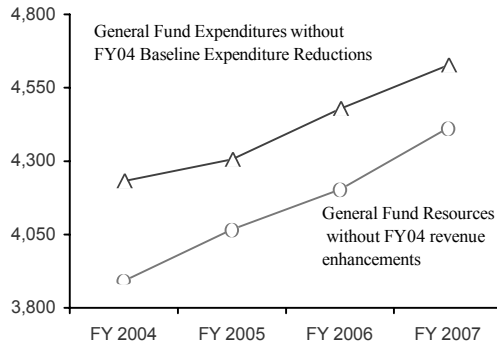
In fiscal year 2004, the District's economy, like that of the nation is expected to see a return to normal growth rates. The return to normal growth rates will once again catapult the city's structural imbalance to the forefront. The District is unique and is shaped by its roles as a city, a state and the Nation's Capital. It is the core of the Washington Metropolitan Area and has the economy and demographics of a core city. It has the expenditure responsibilities of local government and those of a state – but it lacks a comparable tax base. As a city, the District has a severely restricted real property tax base. As a state, the District has no access to the incomes it exports to the suburbs; a state would have access to this base. The District was created by the fed-

eral government and is a “company town.” The federal government provides jobs and helps attract businesses and tourists. Though unlike other company towns, the city does not receive revenues from its major employer, the federal government. But the District does provide services to the federal government.

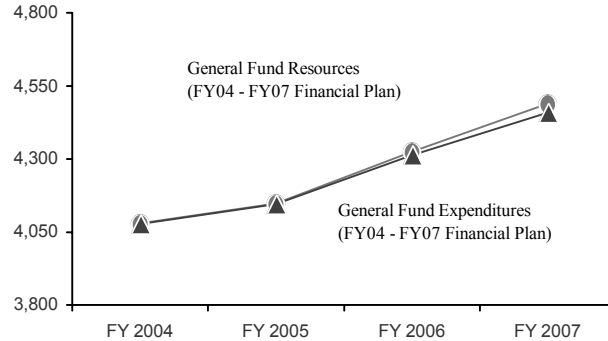
While this financial plan reflects a balanced budget in FY 2004 and through FY 2007, this must not mask the fact that the District cannot continue to provide the current level of services with existing revenue constraints. At some point, alternative revenue sources will have to be identified to ensure that expenditures do not outpace revenues.

D.C. Long-term Structural Imbalance

(\$ in millions)



Without corrective action, the District's long-term imbalance would be evident.



The District cut expenditures and increased certain revenues to submit a balanced budget.

Understanding the Financial Plan

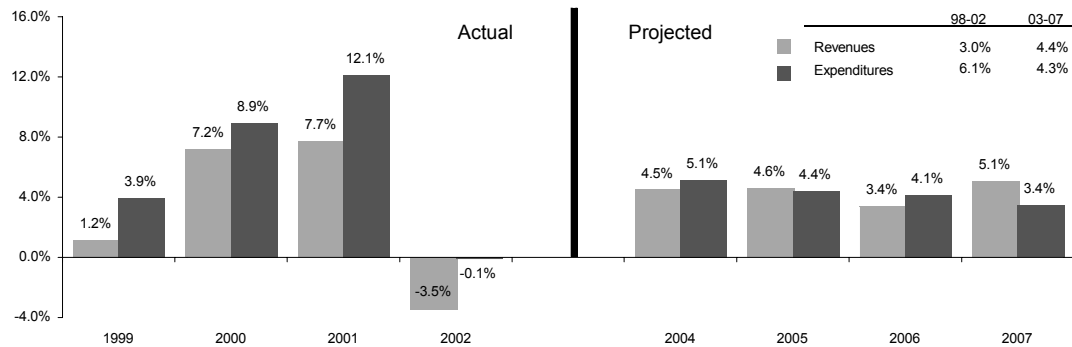
The financial plan is a synopsis of the current fiscal year's approved budget; the prior year's audited actual revenues and expenditures; and planned activity for the next four years. The District uses the multi-year financial plan as a working tool throughout the fiscal year to monitor the impact of legislative proposals, programmatic initiatives, and economic changes on the District's near-term fiscal outlook. The General Fund's financial plan now shows all local fund revenues including revenue that is purpose dedicated or O-type revenue. In prior years, O-type revenue was not treated as local revenue while federal payments (excluding grants) were reflected as local source revenue. There is also a "Federal and Private Resources Fund" financial plan that includes all revenues and expenditures for federal payments, federal operating grants

and private grants. These changes in the financial plan mirror some of the required accounting changes to the Comprehensive Annual Financial Report (CAFR).

Revenues and Expenditures: Past and Future

The graphs above clearly depict the challenges faced by the District as a result of the structural imbalance. They show how revenues and expenditures would diverge (graph at left) if the District had not cut expenditures and increased certain revenues to maintain a balanced budget (graph at right). The charts on the next page reflect revenue and expenditure growth over the previous four years and projections for the future.

Revenue and Expenditure Growth Rate Summary



	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003 Adjusted	2004 Budgeted	2005 Projected	2006 Projected	2007 Projected
Revenues growth rates	3,090,049	3,126,115 1.2%	3,351,152 7.2%	3,609,171 7.7%	3,483,912 -3.5%	3,540,399	3,699,314 4.5%	3,868,606 4.6%	3,999,790 3.4%	4,202,653 5.1%
Expenditures growth rates	2,767,748	2,876,851 3.9%	3,133,857 8.9%	3,512,873 12.1%	3,509,474 -0.1%	3,543,522	3,725,734 5.1%	3,889,005 4.4%	4,049,748 4.1%	4,189,428 3.4%

This chart does not include Federal resources, private grants, or dedicated non-tax revenues

Source for "Actual" revenues is Exhibit A-5 of the Comprehensive Annual Financial Report with some adjustments, such as the convention center tax transfer

Source for "Actual" expenditures is Exhibit A-5 of the CAFR, with some adjustments.

Source for "Projected" revenues is General Fund Revenues less dedicated non-tax revenues in the General Fund Financial Plan (line 5 less line 3). This does not include resources that the District intends to spend against through revenue enhancements (line 7) or spending from the fund balance (line 6).

Source for "Projected" expenditures is General Fund Expenditures less expenditures associated with dedicated non-tax revenues, reserves, or Grant Disallowances (line 23 less lines 3, 18, 20, 22 and the dedicated non-tax portion of line 6)

Reading the Financial Plan

This section addresses the components of this year's multi-year financial plan. For explanatory purposes, the plan is broken into four sections:

revenues; expenditures; fund balance, Generally Accepted Accounting Principles (GAAP) adjustments and transfers; and composition of fund balance. Both the General Fund and the Federal and Private Resources Fund are appended.

Revenues

Table 3-3
FY 2004 – FY 2007 Proposed Budget and Financial Plan
Revenues, Gross Funds
(in Thousands)

Revenues	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
1 Taxes	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007
2 General Purpose Non-Tax Revenues	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007
3 Dedicated Non-Tax (O-type) Revenues	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007
4 Lottery	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007
5 General Fund Revenues	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007
6 Fund Balance Use	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007
7 Revenue Enhancements	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007
8 Total General Fund Resources	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007

Revenues	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
1 Taxes	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007
2 General Purpose Non-Tax Revenues	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007
3 Dedicated Non-Tax (O-type) Revenues	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007
4 Lottery	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007
5 General Fund Revenues	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007
6 Fund Balance Use	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007
7 Revenue Enhancements	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007
8 Total General Fund Resources	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007	1,117,007

Revenues – General Fund

1. Taxes. Includes property, sales, income, and other taxes, which are projected by the Office of Research and Analysis. The revenues reflect a series of tax rate reductions that were implemented in FY 2000. See the Revenue chapter for further details.

2. General-Purpose Non-tax Revenues. Includes revenue from licenses and permits, parking and traffic fines, charges for services, interest income, and other revenue sources that are not dedicated. See the Revenue chapter for further details.

3. Dedicated Non-Tax (O-Type) Revenues. Dedicated non-tax revenues are O-type or other revenues from charges and fees that are collected and spent by the collecting agency. This pool is distinct from the Non-Tax Revenue category above, which is part of the general pool of discretionary general fund revenue.

4. Lottery. Reflects the portion of D.C. Lottery and Charitable Games Control Board revenue that is transferred to the District's general fund.

5. General Fund Revenues.

6. Fund Balance Use. Includes funds that previously fell to the fund balance, but for which the District has received authority to use. Examples are the unspent portion of the FY 2002 Budgeted Reserve and funds previously identified as restricted or designated in the fund balance.

7. Revenue Enhancements. Reflects policy changes to delay tax parity, reduce certain tax abatements in the Housing Act, increase the number of parking meters, and reclassify certain dedicated non-tax funds to local funds. These enhancements are discussed in detail in the Revenues chapter.

8. Total General Fund Resources.

Revenues – Federal and Private Resources Fund

F1. Federal Grants. Federal grant awards anticipated by District agencies. This amount reflects anticipated federal grant receipts.

F2. Federal Payment/Contribution. Reflects the funding contributed by the federal government for specific projects. These funds are restricted in use by the federal government.

F3. Private Grants. Includes revenues received from private grants.

F4. Federal and Private Resources.

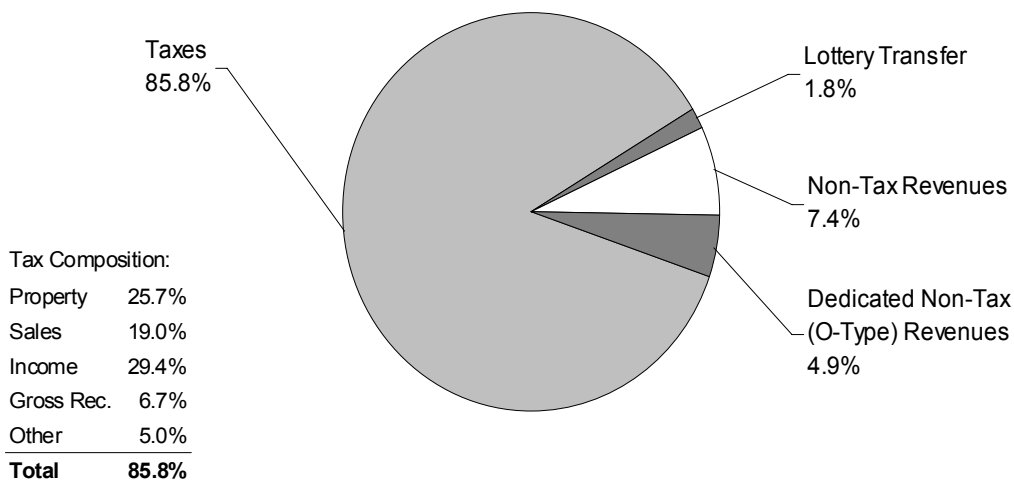
F5. Fund Balance Use. Reflects amounts previously contained in the fund balance that have been released for use in the current year.

F6. Total Federal and Private Resources.

Discussion

Refer to the Revenue chapter for a detailed and thorough discussion of revenues.

General Fund Revenues by Source



Expenditures

Revenue	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
1. Sales	1,177,000	1,200,000	1,220,000	1,240,000	1,260,000	1,280,000
2. Real Estate Taxes	1,177,000	1,200,000	1,220,000	1,240,000	1,260,000	1,280,000
3. Intergovernmental Revenues	1,177,000	1,200,000	1,220,000	1,240,000	1,260,000	1,280,000
4. Grants	1,177,000	1,200,000	1,220,000	1,240,000	1,260,000	1,280,000
5. Federal Reserve Note	1,177,000	1,200,000	1,220,000	1,240,000	1,260,000	1,280,000
6. Federal Reserve Note	1,177,000	1,200,000	1,220,000	1,240,000	1,260,000	1,280,000
7. Federal Reserve Note	1,177,000	1,200,000	1,220,000	1,240,000	1,260,000	1,280,000
8. Total General Fund Revenues	1,177,000	1,200,000	1,220,000	1,240,000	1,260,000	1,280,000
9. Governmental Direction and Support	1,177,000	1,200,000	1,220,000	1,240,000	1,260,000	1,280,000
10. Economic Development and Regulation	1,177,000	1,200,000	1,220,000	1,240,000	1,260,000	1,280,000
11. Public Safety and Justice	1,177,000	1,200,000	1,220,000	1,240,000	1,260,000	1,280,000
12. Public Education System	1,177,000	1,200,000	1,220,000	1,240,000	1,260,000	1,280,000
13. Human Support Services	1,177,000	1,200,000	1,220,000	1,240,000	1,260,000	1,280,000
14. Public Works	1,177,000	1,200,000	1,220,000	1,240,000	1,260,000	1,280,000
15. Receiverships	1,177,000	1,200,000	1,220,000	1,240,000	1,260,000	1,280,000
16. Financing and Other	1,177,000	1,200,000	1,220,000	1,240,000	1,260,000	1,280,000
17. Tax Increment Financing (TIF)	1,177,000	1,200,000	1,220,000	1,240,000	1,260,000	1,280,000
18. Grant Disallowances	1,177,000	1,200,000	1,220,000	1,240,000	1,260,000	1,280,000
19. Budgeted Reserve	1,177,000	1,200,000	1,220,000	1,240,000	1,260,000	1,280,000
20. Budgeted Contingency (Cash Set-Aside)	1,177,000	1,200,000	1,220,000	1,240,000	1,260,000	1,280,000
21. Tobacco Trust Fund (Program Funds)	1,177,000	1,200,000	1,220,000	1,240,000	1,260,000	1,280,000
22. Tobacco Trust Fund (Investment Funds)	1,177,000	1,200,000	1,220,000	1,240,000	1,260,000	1,280,000
23. Total General Fund Expenditures	1,177,000	1,200,000	1,220,000	1,240,000	1,260,000	1,280,000
24. Operating Margin, Budget Basis	1,177,000	1,200,000	1,220,000	1,240,000	1,260,000	1,280,000

Expenditures – General Fund

9. - 15. Agency Expenditures. These items reflect agency expenditures by appropriation title. The growth of expenditures in the out-years is based on growth assumptions that are discussed in the Operating Expenditures chapter. For FY 2003, expenditures in the Receivership appropriation title have been transferred to the Human Support Services appropriation title because the programs associated with these funds are no longer in receivership.

16. Financing and Other. Includes Repayment of Debt, Short-Term Borrowings, Certificate of Participation, the Wilson Building Payment and Settlements and Judgments.

17. TIF (Tax Increment Financing) Expenditures. Beginning in FY 2004, the District will budget expenditures within the TIF program.

18. Grant Disallowances. Each year the District must write off, as uncollectable, certain Medicaid and other grant revenues. This line represents the amount of the contingency.

19. Budgeted Reserve. The Budgeted Reserve is a fiscal safeguard mandated by Congress. This reserve was phased out as the District built its cash reserves. The budgeted reserve is zero in FY 2004. The fiscal safeguard will now be budgeted in the Budgeted Contingency fund.

20. Budgeted Contingency (Cash Set-Aside). The District is required to set aside cash of \$50 million to provide a cushion in the absence of the budgeted reserve (line 19), which was phased out.

21. – 22. Tobacco Trust Fund. These two line items reflect the operating budget relief that the District achieved from the defeasance (or prepayment) of bonds with proceeds from securitized tobacco settlement funds. Upon filling the cash reserves, half of the funds from the tobacco trust fund are to be dedicated to programs, and half of the funds are to be invested for future use. In FY 2003 and 2004, Tobacco funds are dedicated to programs within Public Education and Human Support Services in line with the Executive's proposal to the Council of the District of Columbia.

23. Total General Fund Expenditures.

24. Operating Margin, Budget Basis. This line provides the difference between Total General Fund Resources and Total General Fund Expenditures.

Expenditures – Federal and Private Resources Fund

F7.– F14. Agency Expenditures. These items reflect agency expenditures by appropriation title. The growth of expenditures in the out-years is based on growth assumptions that are discussed in the Operating Expenditures chapter. In FY 2003, expenditures in the Receivership appropriation title have been transferred to the Human Support Services appropriation title because the programs associated with these funds are no longer in receivership.

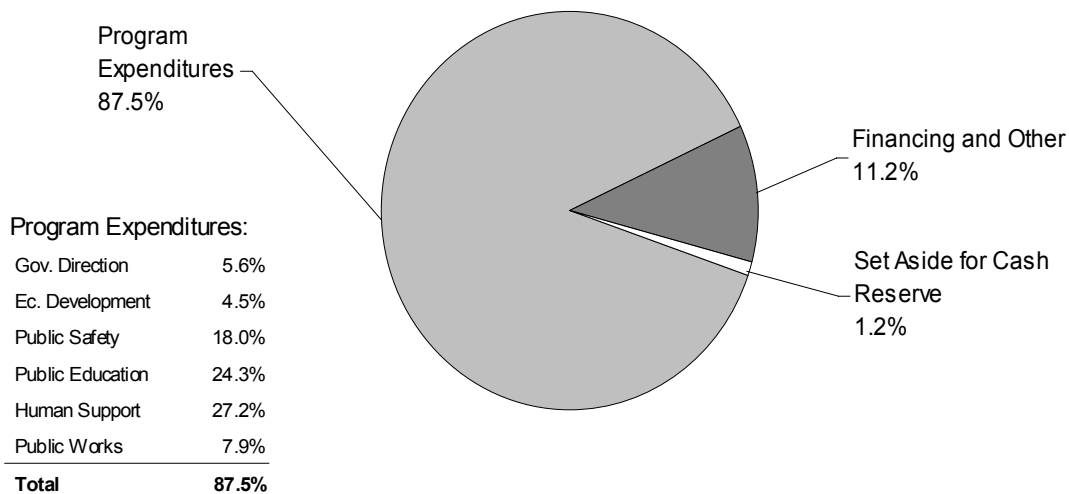
F15. Total Federal and Private Resources Fund Expenditures.

F16. Operating Margin, Budget Basis. This line provides the difference between Total Federal and Private Resources and Total Federal and Private Expenditures.

Discussion

Refer to the Operating Expenditures chapter for a detailed and thorough discussion of the operating expenditures.

General Fund Expenditures by Type



Fund Balance, GAAP Adjustments and Transfers

Table 2.2
FY 2004 - FY 2007 Proposed Budget and Financial Plan
Revenues, Gross Funds
(in thousands)

Revenues	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
1. Taxes	1,517,342	1,517,342	1,517,342	1,517,342	1,517,342	1,517,342
2. Non-Tax Revenues	250,750	250,750	250,750	250,750	250,750	250,750
3. Indirect Revenues (of Special Revenues)	150,238	150,238	150,238	150,238	150,238	150,238
4. Lottery	60,000	60,000	60,000	60,000	60,000	60,000
5. General Fund Revenues	1,978,370	1,978,370	1,978,370	1,978,370	1,978,370	1,978,370
6. Fund Balance Use	20,000	20,000	20,000	20,000	20,000	20,000
7. Reserve Reimbursements	0	0	0	0	0	0
8. Total General Fund Revenues	1,958,370	1,958,370	1,958,370	1,958,370	1,958,370	1,958,370
Revenues by Appropriation Title						
9. Administration/General Services	300,000	300,000	300,000	300,000	300,000	300,000
10. Economic Development and Regulation	150,000	150,000	150,000	150,000	150,000	150,000
11. Public Safety and Justice	300,000	300,000	300,000	300,000	300,000	300,000
12. Public Education System	300,000	300,000	300,000	300,000	300,000	300,000
13. General Government Services	150,000	150,000	150,000	150,000	150,000	150,000
14. Public Works	300,000	300,000	300,000	300,000	300,000	300,000
15. Recreation	150,000	150,000	150,000	150,000	150,000	150,000
16. Planning and Other	300,000	300,000	300,000	300,000	300,000	300,000
17. Tobacco Trust Fund (Tobacco Funds)	0	0	0	0	0	0
18. Other	0	0	0	0	0	0
19. Budgeted Contingency (Cash Set-Aside)	0	0	0	0	0	0
20. Tobacco Trust Fund (Investment Funds)	0	0	0	0	0	0
21. Tobacco Trust Fund (Unrestricted Funds)	0	0	0	0	0	0
22. Total General Fund Revenues	1,958,370	1,958,370	1,958,370	1,958,370	1,958,370	1,958,370
23. Operating Margin, Budget Basis	40,000	40,000	40,000	40,000	40,000	40,000
Comparison of Fund Balance						
24. Beginning General Fund Balance	150,000	150,000	150,000	150,000	150,000	150,000
25. Operating Margin, Budget Basis	40,000	40,000	40,000	40,000	40,000	40,000
26. Operating Margin, Budget Basis (Net)	110,000	110,000	110,000	110,000	110,000	110,000
27. Projected GAAP Adjustments (Net)	0	0	0	0	0	0
28. Unspent Reserve (Budgeted)	0	0	0	0	0	0
29. Unspent Budgeted Contingency (Cash Set-Aside)	0	0	0	0	0	0
30. Tobacco Trust Fund (Investment Funds)	0	0	0	0	0	0
31. Sustaining 7% Target (from Unrest. Fund Balance)	0	0	0	0	0	0
32. Sustaining 7% Target (to Cash Reserves)	0	0	0	0	0	0
33. Fund Balance Use	0	0	0	0	0	0
34. Ending General Fund Balance	150,000	150,000	150,000	150,000	150,000	150,000

25. (& F17.) Beginning Fund Balance. Shows the accumulated fund balance at the beginning of the fiscal year, which is identical to the end of year fund balance for the previous fiscal year. The FY 2002 beginning fund balance was restated to comply with new accounting pronouncements.

26. (& F18.) Operating Margin, Budget Basis. Restatement of line 24 (& F16).

27. (& F19.) Projected GAAP Adjustments (Net). GAAP adjustments are year-end adjustments that are not allocable to a particular agency or appropriation title. These can be items such as lawsuit settlements or write-offs for uncollectable reimbursements.

28. Unspent Reserve (Budgeted). Reflects the projected portion of the budgeted reserve that will not be expended during the fiscal year.

29. Unspent Budgeted Contingency (Cash Set-Aside). The District has established a \$50 million cash reserve to provide budgetary stability as a replacement for the phased-out budgeted reserve. The amount of the unexpended cash reserve is added back to the operating margin because the associated funds remain in the District's general fund balance.

30. Tobacco Trust Fund (Investment Funds). Reflects the value in line 22. This value is added back to the operating margin because the associated funds remain in the District's general fund balance.

31. - 32. Sustaining 7% Target. The District transfers a portion of the unrestricted general fund balance to cash in order to maintain the cash reserves at the required level of 7 percent.

33. (& F20.) Fund Balance Use. Represents adjustments to prior-year fund balance for items released from the fund balance for use in the current fiscal year.

34. (& F21.) Ending Fund Balance. Shows a summation of the beginning fund balance, the budget-basis operating margin, and GAAP adjustments and transfers.

Discussion

The fund balance reflects the cumulative earnings of the District. At the end of each fiscal year, fund balance adjustments are made to show the effects of the current year's financial transactions. Year-end adjustments are made so the financial statements are presented in accordance with GAAP. Items such as expenses for lawsuit settlements that do not require the present use of currently available revenue, as well as estimated losses due to disallowed costs for federal grants, are among the GAAP adjustments. Implementing accounting pronouncement 34 of the Government Accounting Standards Board (GASB 34) resulted in a significant restatement of the FY 2002 fund balance at October 1, 2001.

The general fund balance has two major components: (1) reserved and (2) unreserved. The unreserved fund balance is apportioned further into designated and undesignated components.

Reserved Fund Balance

To use reserved fund balance items, the District must have approval from the external entity that has imposed the restriction. Historically, the reserved balance has been dominated by monies held in escrow for debt service and the congressionally mandated Emergency and Contingency (cash) Reserves.

Unreserved Fund Balance

Unreserved but Designated Fund Balance. The designated component of the fund balance contains items that have been purpose restricted by the legislative or executive branch of the District government.

Unreserved and Undesignated Fund Balance. Those items that fall into this category have neither internal nor external claims against them. Unlike most large cities, the District is prohibited from accessing these funds.

Comprising elements of budgeting and accounting, the financial plan reflects GAAP adjustments as well as transfers between fund balance and cash reserves that do not affect the budget basis operating margin. Hence, these items are sometimes referred to as "below-the-line" adjustments because they impact the District's financial statements "below-the-line." Such items include, but are not limited to, funds that are transferred from the fund balance to cash reserves to reflect the amount that must be maintained to ensure that the District's mandated 7% cash target is fully populated.

Composition of Fund Balance

Table 3.2 FY 2004 – FY 2007 Proposed Budget and Financial Plan Revenues, Gross Funds (\$ in Thousands)						
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenues						
1 Tax	1,115,000	1,147,000	1,180,000	1,210,000	1,240,000	1,270,000
2 Non-Tax Revenues	272,750	287,000	295,000	300,000	305,000	310,000
3 Tobacco Trust Fund Revenues	140,000	150,000	160,000	170,000	180,000	190,000
4 Lottery	60,000	60,000	60,000	60,000	60,000	60,000
5 General Fund Revenues	1,587,750	1,644,000	1,695,000	1,740,000	1,785,000	1,830,000
6 Fund Balance Use	27,000	10,000	10,000	0	0	0
7 Revenue Reconciliation	0	10,000	10,000	10,000	10,000	10,000
8 Total General Fund Revenues	1,560,750	1,634,000	1,675,000	1,750,000	1,795,000	1,840,000
Expenditures by Appropriation Type						
9 Government Operations and Support	200,000	200,000	207,000	210,000	215,000	220,000
10 Economic Development and Regulation	110,000	100,000	100,000	100,000	100,000	100,000
11 Public Safety and Justice	600,000	600,000	600,000	600,000	600,000	600,000
12 Public Education Expenses	400,000	400,000	400,000	400,000	400,000	400,000
13 Public Health Services	100,000	100,000	100,000	100,000	100,000	100,000
14 Public Works	100,000	100,000	100,000	100,000	100,000	100,000
15 Recreation	100,000	100,000	100,000	100,000	100,000	100,000
16 Financial and Other	100,000	100,000	100,000	100,000	100,000	100,000
17 Tax Incentives (Including EIT)	0	0	0	0	0	0
18 Debt Retirement	0	0	0	0	0	0
19 Budget Reserve	0	0	0	0	0	0
20 Budget Contingency Cash Reserve	0	0	0	0	0	0
21 Tobacco Trust Fund (Program Funds)	0	0	0	0	0	0
22 Tobacco Trust Fund (General Fund)	0	0	0	0	0	0
23 Total General Fund Expenditures	1,010,000	1,000,000	1,007,000	1,010,000	1,015,000	1,020,000
24 Operating Margin, Budget Base	550,750	634,000	668,000	740,000	780,000	820,000
25 Operating General Fund Balance	550,750	634,000	668,000	740,000	780,000	820,000
26 Operating Margin, Budget Base	550,750	634,000	668,000	740,000	780,000	820,000
27 Proposed Cash Adjustment (Net)	11,000	0	0	0	0	0
28 Proposed Contingency Cash Reserve	0	0	0	0	0	0
29 Proposed Budget Contingency Cash Reserve	0	0	0	0	0	0
30 Tobacco Trust Fund (General Fund)	0	0	0	0	0	0
31 Operating Margin, Budget Base	550,750	634,000	668,000	740,000	780,000	820,000
32 Operating Margin, Budget Base	550,750	634,000	668,000	740,000	780,000	820,000
33 Operating Margin, Budget Base	550,750	634,000	668,000	740,000	780,000	820,000
34 Operating Margin, Budget Base	550,750	634,000	668,000	740,000	780,000	820,000
35 Operating Margin, Budget Base	550,750	634,000	668,000	740,000	780,000	820,000
36 Operating Margin, Budget Base	550,750	634,000	668,000	740,000	780,000	820,000
37 Operating Margin, Budget Base	550,750	634,000	668,000	740,000	780,000	820,000
38 Operating Margin, Budget Base	550,750	634,000	668,000	740,000	780,000	820,000
39 Operating Margin, Budget Base	550,750	634,000	668,000	740,000	780,000	820,000
40 Operating Margin, Budget Base	550,750	634,000	668,000	740,000	780,000	820,000

Composition of Fund Balance

35 Emergency Cash Reserve Balance (4%)

36 Contingency Cash Reserve Balance (3%)

37 Budgeted Contingency (Cash Set-Aside)

38 Tobacco Trust Fund (Investment Funds)

39 Fund Balance not in Cash Reserve

40 Ending General Fund Balance (Line 34)

35. Emergency Cash Reserve Balance (4%).

The District was required to establish an Emergency Reserve equal to 4 percent of the District's local expenditures. The requirement was satisfied in FY 2002.

36. Contingency Cash Reserve Balance (3%).

The District was required to establish a Contingency Reserve equal to 3 percent of the District's local expenditures. The requirement was satisfied in FY 2002.

37. Budgeted Contingency (Cash Set-Aside).

Reflects the cumulative unspent portion of the Budgeted Contingency (line 20).

38. Tobacco Trust Fund (Investment Funds).

Reflects savings from the tobacco securitization that are to be invested (line 22).

39. Fund Balance not in Cash Reserve.

Reflects the portion of the fund balance that is not composed of cash reserves. This line item does not reflect available funds because there are several restrictions on the District's fund balance in addition to cash reserve balances. One such restriction is bond escrow, which comprised close to \$200 million of the District's FY 2002 fund balance. Bond escrow is accumulated cash that the District is required to maintain for debt payments in the coming year. Fund balance restrictions are addressed thoroughly in the District's Comprehensive Annual Financial Report.

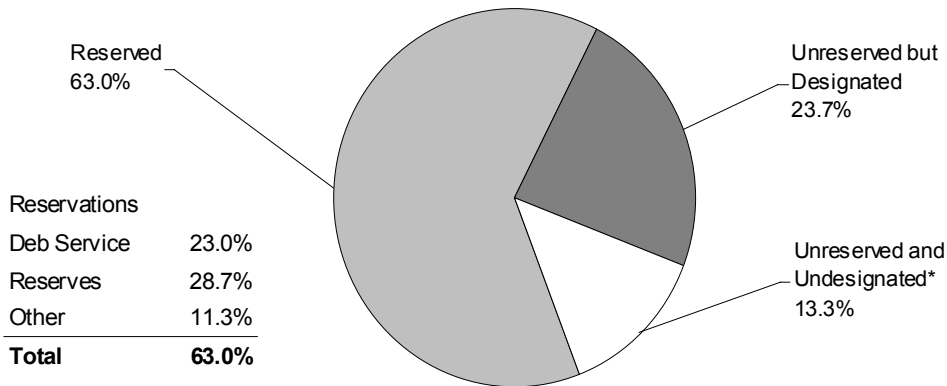
40. Ending General Fund Balance.

Reflects the sum of lines 35 through 39, representing the various components of the fund balance.

Discussion

Restating the October 1, 2001 fund balance resulted in a 49-percent increase in the District's general fund balance. This increase in fund balance does not signal the availability of more funds for spending--quite the contrary. Operating within the guidelines established by Congress results in a general fund with an ever-increasing cash reserve--comprising 29 percent of the total general fund balance in FY 2002 and 57 percent in FY 2007.

Fund Balance Composition, FY 2002



* The unreserved and undesignated fund balance represents about one week of operating cash on hand.

Table 3-1

FY 2004 - FY 2007 Proposed Budget and Financial Plan: General Fund

(\$ thousands)

	Revenues	FY 2002 Actual	FY 2003 Approved	FY 2003 Adjusted	FY 2004 Proposed	FY 2005 Projected	FY 2006 Projected	FY 2007 Projected
1	Taxes	3,147,582	3,147,677	3,186,509	3,339,913	3,493,883	3,618,795	3,813,473
2	General Purpose Non-Tax Revenues	272,759	247,430	285,290	289,201	303,623	309,895	318,080
3	Dedicated Non-tax (O-type) Revenues	156,236	174,631	174,631	191,943	197,475	203,425	209,329
4	Lottery	<u>63,000</u>	<u>70,900</u>	<u>68,600</u>	<u>70,200</u>	<u>71,100</u>	<u>71,100</u>	<u>71,100</u>
5	General Fund Revenues	3,639,577	3,640,638	3,715,030	3,891,257	4,066,081	4,203,215	4,411,982
6	Fund Balance Use	37,401	18,485	69,395	149,093	0	0	0
7	Revenue Enhancements	<u>0</u>	<u>126,850</u>	<u>13,500</u>	<u>38,760</u>	<u>81,860</u>	<u>121,731</u>	<u>76,802</u>
8	Total General Fund Resources	3,676,978	3,785,973	3,797,925	4,079,110	4,147,941	4,324,946	4,488,784
Expenditures (by Appropriation Title)								
9	Governmental Direction and Support	265,939	226,323	217,064	226,974	233,163	241,419	249,783
10	Economic Development and Regulation	116,791	146,325	146,611	185,446	152,848	157,484	162,094
11	Public Safety and Justice	636,160	611,204	621,626	735,660	757,005	783,561	810,394
12	Public Education System	932,948	947,590	933,813	990,016	1,019,046	1,048,389	1,077,657
13	Human Support Services	755,081	1,083,194	1,115,505	1,109,608	1,113,923	1,156,153	1,195,053
14	Public Works	305,361	313,689	305,379	321,773	330,990	344,810	359,088
15	Receiverships	331,100	0	0	0	0	0	0
16	Financing and Other	286,051	387,202	376,937	398,855	440,430	480,860	505,048
17	Tax Increment Financing (TIF)	0	0	0	1,940	9,700	9,700	9,700
18	Grant Disallowances	0	0	0	57,000	0	0	0
19	Budgeted Reserve	0	70,000	70,000	0	0	0	0
20	Budgeted Contingency (Cash Set-Aside)	0	0	0	50,000	30,000	30,000	30,000
21	Tobacco Trust Fund (Program Funds)	0	0	0	0	29,375	30,796	29,939
22	Tobacco Trust Fund (Investment Funds)	0	0	0	0	29,375	30,796	29,939
23	Total General Fund Expenditures	3,629,431	3,785,527	3,786,935	4,077,272	4,145,855	4,313,969	4,458,696
24	Operating Margin, Budget Basis	<u>47,547</u>	<u>446</u>	<u>10,990</u>	<u>1,838</u>	<u>2,086</u>	<u>10,977</u>	<u>30,088</u>
25	Beginning General Fund Balance	837,873	865,328	865,328	806,923	661,668	673,128	694,901
26	Operating Margin, Budget Basis	47,547	446	10,990	1,838	2,086	10,977	30,088
27	Projected GAAP Adjustments (Net)	17,309	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)
28	Unspent Reserve (Budgeted)	0	20,000	20,000	0	0	0	0
29	Unspent Budgeted Contingency (Cash Set-Aside)	0	0	0	20,000	0	0	0
30	Tobacco Trust Fund (Investment Funds)	0	0	0	0	29,375	30,796	29,939
31	Sustaining 7% Target (from Unrest. Fund Balance)	0	0	(5,048)	(31,630)	(4,801)	(11,768)	(10,131)
32	Sustaining 7% Target (to Cash Reserves)	0	0	5,048	31,630	4,801	11,768	10,131
33	Fund Balance Use	<u>(37,401)</u>	<u>(18,485)</u>	<u>(69,395)</u>	<u>(147,093)</u>	<u>0</u>	<u>0</u>	<u>0</u>
34	Ending General Fund Balance	<u>865,328</u>	<u>847,289</u>	<u>806,923</u>	<u>661,668</u>	<u>673,128</u>	<u>694,901</u>	<u>734,928</u>
Composition of Fund Balance								
35	Emergency Cash Reserve Balance (4%)	142,132	145,017	145,017	163,091	165,834	172,559	178,348
36	Contingency Cash Reserve Balance (3%)	106,599	108,762	108,762	122,318	124,376	129,419	133,761
37	Budgeted Contingency (Cash Set-Aside)	0	0	0	20,000	20,000	20,000	20,000
38	Tobacco Trust Fund (Investment Funds)	0	0	0	0	29,375	60,171	90,110
39	Fund Balance not in Cash Reserve	<u>616,597</u>	<u>593,510</u>	<u>553,144</u>	<u>356,259</u>	<u>333,544</u>	<u>312,752</u>	<u>312,709</u>
40	Ending General Fund Balance (Line 34)	<u>865,328</u>	<u>847,289</u>	<u>806,923</u>	<u>661,668</u>	<u>673,128</u>	<u>694,901</u>	<u>734,928</u>

Table 3-2

FY 2004 - FY 2007 Proposed Budget and Financial Plan: Federal and Private Resources Fund

(\$ thousands)

Revenues		FY 2002 Actual	FY 2003 Approved	FY 2003 Adjusted	FY 2004 Proposed	FY 2005 Projected	FY 2006 Projected	FY 2007 Projected
F1	Federal Grants	1,417,295	1,712,500	1,712,500	1,560,735	1,633,860	1,711,512	1,792,578
F2	Federal Payment/Contribution	240,430	47,291	47,291	41,300	0	0	0
F3	Private Grants	20,585	28,285	28,285	13,767	14,171	14,602	15,034
F4	Federal & Private Resources	1,678,310	1,788,076	1,788,076	1,615,801	1,648,031	1,726,114	1,807,611
F5	Fund Balance Use	38,329	0	0	0	0	0	0
F6	Total Federal & Private Resources	1,716,639	1,788,076	1,788,076	1,615,801	1,648,031	1,726,114	1,807,611
Expenditures (by Appropriation Title)								
F7	Governmental Direction and Support	25,287	36,554	36,554	57,440	50,820	52,292	53,758
F8	Economic Development and Regulation	108,058	100,812	100,812	91,202	93,812	96,598	99,384
F9	Public Safety and Justice	65,361	12,124	12,124	11,599	10,632	10,988	11,345
F10	Public Education System	160,434	222,398	222,398	178,010	165,639	170,579	175,516
F11	Human Support Services	1,018,135	1,395,623	1,395,623	1,257,276	1,321,712	1,390,090	1,461,890
F12	Public Works	2,517	5,662	5,662	5,274	5,417	5,568	5,719
F13	Receiverships	94,970	0	0	0	0	0	0
F14	Financing and Other	0	14,903	14,903	15,000	0	0	0
F15	Total Federal & Private Expenditures	1,474,762	1,788,076	1,788,076	1,615,801	1,648,031	1,726,114	1,807,611
F16	Operating Margin, Budget Basis	241,877	0	0	0	0	0	0
F17	Beginning Federal & Private Fund Balance	27,679	235,799	235,799	235,799	235,799	235,799	235,799
F18	Operating Margin, Budget Basis	241,877	0	0	0	0	0	0
F19	Projected GAAP Adjustments (Net)	(33,757)	0	0	0	0	0	0
F20	Fund Balance Use	0	0	0	0	0	0	0
F21	Ending Federal & Private Fund Balance	235,799	235,799	235,799	235,799	235,799	235,799	235,799

Federal and Private Funds

This plan depicts the District's anticipated revenues and planned expenditures for federal grants, federal payments, and private grants. In prior years, the District published a Gross Funds plan in this space. Because of changes to accounting standards (which are discussed earlier), the District no longer has a Gross Funds financial plan. The District now publishes a General Fund plan and a Federal and Private Fund plan, which correspond to funds published in the District's CAFR.

The Bottom Line

As reflected in the financial plan, the margin for error is indeed small. It will take strong stewardship from elected and appointed officials to steer the District through these tumultuous times to secure the fiscal viability of the city.

Filling the Emergency and Contingency Reserves

In FY 2002, the District filled the Emergency and Contingency Reserves to the mandated level of 7 percent, or \$248.7 million. The District filled the Emergency Reserve two years early and the Contingency Reserve five years early. The District will continue to maintain these reserves at their congressionally mandated levels.

The following table summarizes the District's reserves and illustrates how the District filled its Emergency and Contingency Reserves ahead of schedule. The reserves are described in the Composition of Fund Balance section of this Financial Plan chapter.

Table 3-3
FY 2004 - FY 2007 Reserve Summary

(\$ millions)

	FY02		FY03		FY04		FY05		FY06		FY07	
	Actual		Adjusted		Proposed		Projected		Projected		Projected	
	Total	Target	Total	Target	Total	Target	Total	Target	Total	Target	Total	Target
Budgeted Reserve	120.0		70.0		0.0		0.0		0.0		0.0	
Cash Reserves												
Emergency and Contingency Cash Reserves	248.7	248.7	253.8	253.8	285.4	285.4	290.2	290.2	302.0	302.0	312.1	312.1
Emergency Reserve (4%)	142.1	142.1	145.0	145.0	163.1	163.1	165.8	165.8	172.6	172.6	178.3	178.3
Contingency Reserve (3%)	106.6	106.6	108.8	108.8	122.3	122.3	124.4	124.4	129.4	129.4	133.8	133.8
Cash Set-aside 1/	0.0	0.0	0.0	0.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Tobacco Trust Fund (Investment Funds)	0.0	n/a	0.0	n/a	0.0	n/a	29.4	n/a	60.2	n/a	90.1	n/a
Total Cash Reserves	248.7	248.7	253.8	253.8	335.4	335.4	369.6	340.2	412.2	352.0	452.2	362.1
Filling the Emergency and Contingency Reserves												
Prior Year Contributions	100.8		248.7		253.8		285.4		290.2		302.0	
1% Requirement 2/	35.5		0.0		0.0		0.0		0.0		0.0	
Tobacco Savings	33.3		0.0		0.0		0.0		0.0		0.0	
Debt Relief 3/	79.4		0.0		0.0		0.0		0.0		0.0	
Sustaining 7% Target	0.0		5.0		31.6		4.8		11.8		10.1	

1/This represents the cash set aside at the beginning of the fiscal year. The District may spend from this fund for authorized uses during the year.

2/ Upon satisfying the 7% target, the 1% cash contribution is no longer necessary.

3/These funds had been dedicated to reducing District debt before being applied to the District's reserves.

Note: Numbers may not add to totals due to rounding.